

Legislative Audit Division

State of Montana



Report to the Legislature

October 1995

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 1995

Board of Regents and Commissioner of Higher Education

This report contains five recommendations including:

- ▶ Increasing income on investments.
- ▶ Complying with federal regulations governing required levels of expenditures.
- ▶ Recovering indirect costs.

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial-assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

October 1995

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Regents and Commissioner of Higher Education for the two fiscal years ended June 30, 1995. Included in this report are five recommendations related to increasing income on investments, recovering indirect costs, and improving compliance with federal and state regulations. The written response to the audit recommendations is included at the end of the audit report.

We thank the commissioner and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".
Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1995

Board of Regents and Commissioner of Higher Education

Members of the audit staff involved in this audit were John Fine, Charity Fries, Wayne Kedish, Tori Hunthausen, and Paul J. O'Loughlin.

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Appointed and Administrative Officials

Board of Regents of Higher Education

Term
Expires

Marc Racicot, Governor*		
Nancy Keenan, Superintendent of Public Instruction*		
Jim Kaze, Chairman	Havre	1999
Paul F. Boylan	Bozeman	1998
L. Colleen Conroy	Hardin	2001
Patrick P. Davison	Billings	2000
Mike Green, Student Regent	Belgrade	1996
Cordell Johnson	Helena	1996
Kermit R. Schwanke	Missoula	1997

*Ex officio member

Administrative Officials

Dr. Jeff D. Baker	Commissioner of Higher Education
Dr. Richard Crofts	Deputy Commissioner for Academic Affairs
Rod Sundsted	Associate Commissioner for Fiscal Affairs
Laurie O. Neils	Director of Budget and Accounting

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the office develop an investment strategy with the Board of Investments to increase investment earnings in the MUS insurance and GSL program accounts.	6
	<u>Agency Response:</u> Concur. See page B-4.	
<u>Recommendation #2</u>	We recommend the office comply with federal regulations concerning the level of state vocational education expenditures for the Carl Perkins program.	8
	<u>Agency Response:</u> Concur. See page B-5.	
<u>Recommendation #3</u>	We recommend the office recover indirect costs from Talent Search grant at 8 percent of direct costs as allowed by the U.S. Department of Education.	8
	<u>Agency Response:</u> Concur. See page B-6.	
<u>Recommendation #4</u>	We recommend the office set fees within statutory limits or seek legislation to eliminate statutory fee limits.	9
	<u>Agency Response:</u> Concur. See page B-7.	
<u>Recommendation #5</u>	We recommend the office: A. Develop a METNET budget on a timely basis to facilitate assessment and collection of METNET fees by July 1, in accordance with state law, or B. Seek legislation to change the METNET assessment date to coincide with approval of the university system operating budgets.	10
	<u>Agency Response:</u> Concur. See page B-8.	

Introduction

We performed a financial-compliance audit of the Board of Regents and Commissioner of Higher Education for the two fiscal years ended June 30, 1995. The objectives of our audit were to:

1. Determine compliance with applicable state and federal laws and regulations.
2. Make recommendations for improvement in the agency's management and internal controls.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the agency's financial schedules are fairly presented for the two fiscal years ended June 30, 1995.

We coordinated our financial-compliance audit work with the annual financial-compliance audits of the Montana Guaranteed Student Loan Program (#94-25 and #95-6). The Montana Guaranteed Student Loan Program allows eligible students to receive guaranteed loans from lending institutions for post-secondary education.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Other areas of concern deemed not to have significant effect on the successful operations of the agency are not specifically included in the report, but have been discussed with management.

Background

Board of Regents of Higher Education

Article X of the Montana Constitution establishes the Board of Regents of Higher Education (board) to govern and control the Montana University System. The board also has administrative and supervisory control of the six units of the university system and the colleges of technology and general supervision of community colleges. The board consists of seven members appointed by the

Introduction

Governor and confirmed by the Senate. The Governor and Superintendent of Public Instruction are ex-officio members of the board.

Commissioner of Higher Education

As required by Article X of the Montana Constitution, the board appoints a Commissioner of Higher Education. The board prescribes the term and duties of the commissioner. The commissioner is responsible for overall supervision and coordination of units of the university system. Duties include academic planning and curriculum review, budgetary planning and control, legal services, and labor negotiation policies and procedures.

Table 1 summarizes the funding sources for employees in the Commissioner's Office.

Table 1	
<u>Funding Sources for Authorized Employees</u>	
<u>Office of the Commissioner of Higher Education Employees</u>	
<u>Fiscal Year 1995</u>	
	<u>FTE Employees</u>
GENERAL FUND:	
University System Administration	15.85
Carl Perkins Administration	1.10
Minority Achievement	2.00
Subtotal	<u>18.95</u>
FEDERAL FUNDS:	
Guaranteed Student Loan Program	52.45
Talent Search	8.95
Carl Perkins Administration	2.10
Subtotal	<u>63.50</u>
PROPRIETARY FUNDS:	
Group Insurance	3.50
Subtotal	<u>3.50</u>
TOTAL FTE	<u>85.95</u>
Source:	Compiled by the Legislative Audit Division from agency records.

The commissioner also administers the Western Interstate Commission for Higher Education (WICHE) and the Washington, Alaska, Montana, Idaho (WAMI) cooperative medical program. The

WICHE program provides education opportunities for Montana students in the fields of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, public health, occupational therapy, and podiatry. The WAMI program is a cooperative agreement for medical education. Montana also has a cooperative agreement for dentistry with the University of Minnesota. Because of recent legislative interest in these programs, we provide additional budgetary and expenditure information. Table 2 provides a summary of expenditures for these programs.

Table 2			
<u>WICHE, WAMI, and Minnesota Dental</u> <u>Summary of Program Expenditures</u>			
<u>Fiscal</u> <u>Year</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Students</u>
	WICHE AND MINNESOTA DENTAL		
1993-94	\$1,696,368	\$1,696,368	102
1994-95	1,435,793	1,397,136	87
	WAMI		
1993-94	2,241,276	2,241,276	80
1994-95	2,336,160	2,231,508	79
Source: Compiled by the Legislative Audit Division from agency records.			

Table 3 summarizes the total number of students, by field, participating in the WICHE program during fiscal year 1994-95. The table also shows the total expenditures less scholarships. During fiscal year 1994-95, scholarships totalled \$146,731.

Introduction

Table 3

WICHE Enrollment by Field and
Total Cost Less Scholarships
Fiscal Year 1994-95

<u>Field</u>	<u>Total Students</u>	<u>Total Cost Less Scholarships</u>
Medicine	22	\$436,172
Osteopathic Medicine	5	59,500
Dentistry	7	94,500
Veterinary Medicine	36	588,800
Podiatry	1	8,300
Optometry	8	51,100
Occupational Therapy	1	6,533
Public Health	2	5,731
Minnesota Dental	5	67,500
	<u>87</u>	<u>1,318,136</u>
Administration		79,000
Total WICHE Expenditures		<u>\$1,397,136</u>

Source: Compiled by the Legislative Audit Division from agency records.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the audit of the Board of Regents (board) and the Office of the Commissioner of Higher Education (office) for the two fiscal years ended June 30, 1993. The 1993 report contained five recommendations. Of the five recommendations, the agency implemented three and did not implement two.

One of the recommendations not implemented involved the recording of summer session financial activity for the university system. The office did not concur with our recommendation to amend university system policy to agree with generally accepted accounting principles. We will review summer session financial activity and reporting issues at the individual university unit level when we conduct these audits. The second recommendation not implemented, discussed on page nine, relates to collection of a fee to support administration of the Montana Telecommunications Network.

Findings and Recommendations

Investments

The Montana University System (MUS) Group Insurance program and the Guaranteed Student Loan (GSL) program invest required reserves and other resources in the short-term investment pool (STIP), administered by the state's Board of Investments. MUS insurance reserves are set to satisfy claims incurred but not yet paid. The GSL reserves cover requirements of agreements the GSL program has with lending institutions, the U.S. Department of Education, and bond covenants with the Montana Higher Education Student Assistance Corporation (MHESAC). We reviewed the balances in the investment accounts of GSL and MUS group insurance programs and determined investment earnings could be increased.

GSL and MUS had balances of \$7,219,800 and \$7,555,400 invested in STIP at June 30, 1995. Based on our analysis and discussions with personnel, we estimated both GSL and MUS group insurance programs could have each earned an additional \$45,000 in the 1995 biennium by investing \$3 million of their assets in longer term investments. We believe there is potential to enhance future interest earnings. Fiscal personnel of the office should analyze cash needs to determine how much of MUS and GSL assets could be invested in longer term securities. Investment officers of the Board of Investments have offered to help the office develop an investment strategy to improve earnings, personnel said.

Recommendation #1

We recommend the office develop an investment strategy with the Board of Investments to increase investment earnings in the MUS insurance and GSL program accounts.

Federal Compliance

Required Levels of Expenditures

The Montana Legislature has assigned the office as the sole state agency responsible for the administration of the federal Carl Perkins Vocational Education Grant (CFDA #84.048). The objectives of this grant are to assist the state in providing quality vocational education programs and ensure accessibility of the programs to all qualified people.

Federal regulations require a state receiving Carl Perkins funds to maintain the level of vocational education expenditures each year from state sources equal to the previous year. The expenditure level may be determined on a per student basis or on a basis of aggregate expenditures of funds from state sources. In fiscal year 1993-94 the state did not meet the required level of expenditures.

If the state does not meet the required expenditure level, continued federal funding for the Perkins Vocational Education grants may be in jeopardy. Agency personnel indicated lower levels of funding by the legislature make compliance difficult. In addition, the state's levels of expenditures in previous years were in excess of the amount required. Federal regulations require the state to continue spending at the level set in the year an excess was reported. As a result, personnel said, meeting the previous years level of support has become increasingly difficult.

Office management said it sought guidance from the U.S. Department of Education as to whether to report all effort in an unusual peak year. By revising effort reported for fiscal year 1991-92, such a peak year the office could put the state in compliance with the required level of expenditure standard in subsequent years. Although the office requested guidance two years ago, the department has not yet responded.

Findings and Recommendations

Recommendation #2

We recommend the office comply with federal regulations concerning the level of state vocational education expenditures for the Carl Perkins program.

State Compliance

During our audit we reviewed state laws and regulations applicable to the office's operations. The following three sections discuss situations where compliance with state law could be improved.

Indirect Cost Recovery

The office administers the Talent Search (CFDA #84.044), a program designed to identify qualified disadvantaged youth and encourage them to enroll in college. The U.S. Department of Education allows a grantee to bill the department eight percent of its direct charges to recover indirect administrative costs of the program.

We found the office did not recover indirect costs for the full 8 percent in either fiscal year of our audit period. Section 17-3-111, MCA, requires state agencies to recover indirect costs from federal programs to the extent possible. In addition, Chapter 623, Laws of 1993, required the office to revert indirect cost recoveries in excess of \$20,885 to the General Fund. Had the office recovered all possible indirect costs, the General Fund reversion would have increased by \$5,117 and \$5,614 in fiscal years 1993-94 and 1994-95, respectively.

Recommendation #3

We recommend the office recover indirect costs from Talent Search grant at 8 percent of direct costs as allowed by the U.S. Department of Education.

Building Fees

Section 20-25-302, MCA, limits building fees for Montana resident students to \$90 per academic year at the University of Montana-Missoula and \$50 per unit at all other units. We reviewed the university system's fee inventory for fiscal year 1994-95. We found building fees at all university units except the University of Montana-Missoula exceeded the statutory limits.

An official of the office said the statutory limit on fees was overridden by the 1972 state constitution. Article X, Section 9 grants full power, responsibility, and authority to supervise, coordinate, manage and control the university system to the Board of Regents. According to the official, the powers of the regents under the constitution have been affirmed by the courts and recognized by bond counsel when units have issued bonds.

In addition to the statute discussed above, we noted a related restriction on building fees in section 20-25-401, MCA. Since the office believes these laws conflict with the constitution, the office should seek legislation to eliminate the conflict.

Recommendation #4

We recommend the office set fees within statutory limits or seek legislation to eliminate statutory fee limits.

METNET Assessment Fee

Section 20-32-103, MCA, requires the office to assess university units a fee to assist the office in carrying out its responsibilities for the Montana Educational Communication Network (METNET). The law allows the office to set the fee each year commensurate with costs, up to a limit of \$5 per Full Time Equivalent (FTE) student. The fee is based on the FTE of the previous year. The office did not collect the fee on or before July 1, 1994, or 1995 as required by state law.

We addressed this concern in our prior audit, issued in October 1993, and the office concurred with our recommendation. Staff

Findings and Recommendations

indicated they had planned to seek legislation to amend the July 1 collection date. The office did not have amending legislation introduced.

The office said section 17-7-138(2), MCA, required approval of operating budgets for the university system by October 1, three months after the collection date for METNET fees. Until the operating budget is approved, the office does not have a supported basis for making the assessment. At a rate of one dollar per FTE, the office collected \$27,344 in METNET assessments in fiscal year 1994-95.

With the semester schedule, the previous year's FTE is available in February. If the office budgeted for its portion of METNET expenditures on a more timely basis, the fee could easily be assessed and collected by July 1. If constraints delay budget preparation, the office could estimate the assessment needed and adjust for differences when billing the following year.

Recommendation #5

We recommend the office:

- A. Develop a METNET budget on a timely basis to facilitate assessment and collection of METNET fees by July 1, in accordance with state law; or**
- B. Seek legislation to change the METNET assessment date to coincide with approval of the university system operating budgets.**

Insurance Plan Participation

State law authorizes the Board of Regents to form a group medical and life insurance plan for the benefit of its officers and employees. The office administers the Montana University System (MUS) group insurance program which covers faculty and staff of the university units and staff of the office. Section 33-1-102(8)(b), MCA, exempts any plan in which a political subdivision provides coverage to its officers or employees from regulation under the Montana Insurance Code.

The Montana University System (MUS) group insurance plan provides coverage to employees of the Montana Higher Education Student Assistance Corporation, five members of the State Bar of Montana, and members of several other non-employee groups. These individuals are not employees of the university system or of a political subdivision of the state.

Section 33-2-101(1), MCA, states no insurer shall transact insurance in Montana except as authorized by a certificate of authority issued by the Insurance Commissioner. Insurance Commissioner personnel said the MUS group plan does not have such a certificate. By acting as an insurer for individuals who are not employees and officers of the university system, we question whether the MUS group insurance plan is exempt from regulation by state insurance law. Without the exemption, MUS would be subject to premium tax, regulations, and reporting requirements.

CHE personnel disputed our finding that participation by non-employees impairs the exemption of the MUS plan from insurance regulation. Since the Insurance Commissioner has responsibility for insurance regulation, our office, in cooperation with CHE, agreed to submit the MUS plan exemption issue to the Insurance Commissioner for review. Therefore, we make no recommendation at this time.

Independent Auditor's Report & Agency Financial Schedules



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LEGAL COUNSEL:
JOHN W. NORTHEY

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Operations and EDP Audit
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Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Board of Regents and Commissioner of Higher Education for each of the two fiscal years ended June 30, 1994 and 1995, as listed in the table of contents. The information contained in these financial schedules is the responsibility of the Board of Regents and Commissioner of Higher Education's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the agency's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Board of Regents and Commissioner of Higher Education for the two fiscal years ended June 30, 1994 and 1995 in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 10, 1995

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Expendable Trust Fund</u>
FUND BALANCE: July 1, 1993	\$ <u>0</u>	\$ <u>4,028,952</u>	\$ <u>3,340,190</u>	\$ <u>0</u>	\$ <u>35,062</u>
ADDITIONS					
<u>Fiscal Year 1993-94</u>					
Prior Year Expenditure Adjustments	3,758 ¹	25,307			
Support From State of Montana	109,448,437 ¹				
Budgeted Revenue & Transfers In		11,204,684		18,323,495	97,760
Cash Transfers In		13,978,329	113,526		
Prior Year Revenue Adjustments		2,042			
Direct Entries to Fund Balance				3,296,060 ²	
<u>Fiscal Year 1994-95</u>					
Prior Year Expenditure Adjustments	2,638 ¹	33,452			
Support From State of Montana	107,834,654 ¹				
Budgeted Revenue & Transfers In		11,498,750		21,058,913	141,501
Cash Transfers In		14,915,844			
Direct Entries to Fund Balance			9,303		
Total Additions	<u>217,289,487</u>	<u>51,658,408</u>	<u>122,829</u>	<u>42,678,468</u>	<u>239,261</u>
REDUCTIONS					
<u>Fiscal Year 1993-94</u>					
Budgeted Expenditures & Transfers Out	109,452,195	27,854,146	146,255	16,858,208	55,500
Nonbudgeted Expenditures & Transfers Out		7,068		783	
Prior Year Expenditure Adjustments			20,704 ²		
Direct Entries to Fund Balance			3,296,060 ²		
Nonbudgeted Prior Year Expenditure Adjustments				4,949	
<u>Fiscal Year 1994-95</u>					
Budgeted Expenditures & Transfers Out	109,378,987	24,593,079		20,592,586	73,024
Prior Year Transfer Out Adjustments	(1,541,695)				
Nonbudgeted Prior Year Transfers Out Adjustments		138			
Prior Year Revenue Adjustments		1,354			
Nonbudgeted Expenditures & Transfers Out				7,734	
Prior Year Expenditure Adjustments				7,482	
Total Reductions	<u>217,289,487</u>	<u>52,455,785</u>	<u>3,463,019</u>	<u>37,471,742</u>	<u>128,524</u>
FUND BALANCE: June 30, 1995	\$ <u>0</u>	\$ <u>3,231,575</u>	\$ <u>0</u>	\$ <u>5,206,726</u>	\$ <u>145,799</u>

¹ See note 5 on page A-10.

² See note 1 on page A-9.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

	Taxes	Charges For Services	Investment Earnings	Income Collections & Transfers	Federal	Sale of Documents, & Merchandise	Grants, Contracts, Donations	Contributions and Premiums	Total
<u>Fiscal Year 1994-95</u>									
SPECIAL REVENUE FUND									
Estimated Revenue	\$1,814,000	\$1,575,846	\$212,420	\$127,006	\$7,398,879				\$11,128,151
Actual Revenue	<u>1,013,989</u>	<u>2,500,435</u>	<u>373,295</u>	<u>127,011</u>	<u>7,484,020</u>				<u>11,498,750</u>
Collections Over(Under) Estimate	<u>\$ (800,011)</u>	<u>\$ 924,589</u>	<u>\$160,875</u>	<u>\$ 5</u>	<u>\$ 85,141</u>				<u>\$ 370,599</u>
INTERNAL SERVICE FUND									
Estimated Revenue			\$200,000					\$19,576,000	\$19,776,000
Actual Revenue			<u>406,729</u>					<u>20,652,184</u>	<u>21,058,913</u>
Collections Over(Under) Estimate			<u>\$206,729</u>					<u>\$ 1,076,184</u>	<u>\$ 1,282,913</u>
EXPENDABLE TRUST FUND									
Estimated Revenue		\$ 145,512	\$ 5,500						\$ 151,012
Actual Revenue		<u>135,136</u>	<u>6,365</u>						<u>141,501</u>
Collections Over(Under) Estimate		<u>\$ (10,376)</u>	<u>\$ 865</u>						<u>\$ (9,511)</u>
<u>Fiscal Year 1993-94</u>									
SPECIAL REVENUE FUND									
Estimated Revenue	\$1,558,000	\$2,077,022	\$175,000	\$314,739	\$3,075,977				\$ 7,200,738
Actual Revenue	<u>974,589</u>	<u>2,658,662</u>	<u>217,886</u>	<u>314,739</u>	<u>7,038,808</u>				<u>11,204,684</u>
Collections Over(Under) Estimate	<u>\$ (583,411)</u>	<u>\$ 581,640</u>	<u>\$ 42,886</u>	<u>\$ 0</u>	<u>\$3,962,831</u>				<u>\$ 4,003,946</u>
ENTERPRISE FUND									
Estimated Revenue			\$ 1,000			\$ 118,000	\$ 31,000		\$ 150,000
Actual Revenue			<u>0</u>			<u>0</u>	<u>0</u>		<u>0</u>
Collections Over(Under) Estimate			<u>\$ (1,000)</u>			<u>\$ (118,000)</u>	<u>\$ (31,000)</u>		<u>\$ (150,000)</u>
INTERNAL SERVICE FUND									
Estimated Revenue			\$175,000					\$17,797,219	\$17,972,219
Actual Revenue			<u>230,754</u>					<u>18,092,741</u>	<u>18,323,495</u>
Collections Over(Under) Estimate			<u>\$ 55,754</u>					<u>\$ 295,522</u>	<u>\$ 351,276</u>
EXPENDABLE TRUST FUND									
Estimated Revenue		\$ 94,944	\$ 4,700						\$ 99,644
Actual Revenue		<u>95,856</u>	<u>1,904</u>						<u>97,760</u>
Collections Over(Under) Estimate		<u>\$ 912</u>	<u>\$ (2,796)</u>						<u>\$ (1,884)</u>

¹ See note 6 on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES & TRANSFERS OUT BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	<u>Administration</u>	<u>Student Assistance</u>	<u>Eisenhower Mathematics Sci Ed Act</u>	<u>Community College & Assistance</u>	<u>University System Group Insurance</u>	<u>Talent Search</u>	<u>Vo-Tech Appropriation Distribution</u>	<u>Carl D. Perkins Administration</u>	<u>Appropriation Distribution</u>	<u>Guaranteed Student Loan Program</u>	<u>Montana Board of Regents Administration</u>	<u>Board of Regents Bond Payments</u>	<u>Total</u>
PERSONAL SERVICES													
Salaries	\$571,302				\$ 94,090	\$264,451		\$ 162,555		\$ 850,834			\$ 1,943,232
Other Compensation											\$ 7,150		7,150
Employee Benefits	<u>126,019</u>				<u>24,331</u>	<u>74,108</u>		<u>37,790</u>		<u>247,372</u>			<u>509,620</u>
Total	<u>697,321</u>				<u>118,421</u>	<u>338,559</u>		<u>200,345</u>		<u>1,098,206</u>	<u>7,150</u>		<u>2,460,002</u>
OPERATING EXPENSES													
Other Services	60,575	\$ 3,500			1,426,756	30,896		32,264		648,979	670		2,203,640
Supplies & Materials	(6,911)		\$ 400		7,451	38,998		15,970		29,721	(1,101)		84,528
Communications	27,579		27		6,663	12,820		15,541		120,848	345		183,823
Travel	25,410		1,303		12,435	37,971		48,713		35,862	12,068		173,762
Rent	89,101					609		6,845		147,235			243,790
Utilities	9,486									9,236			18,722
Repair & Maintenance	18,319					250		40		152,078			170,687
Other Expenses	<u>568</u>		<u>76</u>		<u>399,063</u>	<u>29,087</u>		<u>9,491</u>		<u>420,839</u>	<u>5,450</u>		<u>864,574</u>
Total	<u>224,127</u>	<u>3,500</u>	<u>1,806</u>		<u>1,852,368</u>	<u>150,631</u>		<u>128,864</u>		<u>1,564,798</u>	<u>17,432</u>		<u>3,943,526</u>
EQUIPMENT AND INTANGIBLE ASSETS													
Equipment	9,196				2,998			2,343		34,188			48,725
Intangible Assets	<u>1,607</u>				<u>243</u>	<u>2,489</u>		<u>184</u>		<u>2,736</u>			<u>7,259</u>
Total	<u>10,803</u>				<u>3,241</u>	<u>2,489</u>		<u>2,527</u>		<u>36,924</u>			<u>55,984</u>
LOCAL ASSISTANCE													
From State Sources		<u>79,000</u>		<u>4,125,464</u>									<u>4,204,464</u>
Total		<u>79,000</u>		<u>4,125,464</u>									<u>4,204,464</u>
GRANTS													
From State Sources		4,797,298											4,797,298
From Federal Sources		259,612	260,057					1,968,311					2,487,980
From Other Sources		<u>69,524</u>											<u>69,524</u>
Total		<u>5,126,434</u>	<u>260,057</u>					<u>1,968,311</u>					<u>7,354,802</u>
BENEFITS & CLAIMS													
Insurance Payments					<u>18,618,556</u>								<u>18,618,556</u>
Total					<u>18,618,556</u>								<u>18,618,556</u>
TRANSFERS													
Accounting Entity Transfer							<u>\$8,660,152</u>	<u>3,219,996</u> ¹	<u>106,008,711</u>				<u>117,888,859</u>
Total							<u>8,660,152</u>	<u>3,219,996</u>	<u>106,008,711</u>				<u>117,888,859</u>
DEBT SERVICE													
Leases												<u>\$111,483</u>	<u>111,483</u>
												<u>111,483</u>	<u>111,483</u>
TOTAL PROGRAM EXPENDITURES	<u>\$932,251</u>	<u>\$5,208,934</u>	<u>\$261,863</u>	<u>\$4,125,464</u>	<u>\$20,592,586</u>	<u>\$491,679</u>	<u>\$8,660,152</u>	<u>\$5,520,043</u>	<u>\$106,008,711</u>	<u>\$2,699,928</u>	<u>\$24,582</u>	<u>\$111,483</u>	<u>\$154,637,676</u>
GENERAL FUND													
Budgeted	\$996,023	\$5,019,622		\$4,125,464		\$ 88,912	\$7,604,354	\$ 80,821	\$91,562,423		\$33,854	\$111,483	\$109,622,956
Actual	<u>923,838</u>	<u>4,876,298</u>		<u>4,125,464</u>		<u>85,970</u>	<u>7,604,354</u>	<u>64,575</u>	<u>91,562,423</u>		<u>24,582</u>	<u>111,483</u>	<u>109,378,987</u>
Unspent Budget Authority	<u>\$ 72,185</u>	<u>\$ 143,324</u>		<u>\$ 0</u>		<u>\$ 2,942</u>	<u>\$ 0</u>	<u>\$ 16,246</u>	<u>\$ 0</u>		<u>\$ 9,272</u>	<u>\$ 0</u>	<u>\$ 243,969</u>
SPECIAL REVENUE FUND													
Budgeted	\$500,000	\$ 305,000	\$300,409			\$454,824	\$1,056,223	\$5,589,425	\$14,598,841	\$3,443,919			\$ 26,248,641
Actual	<u>8,413</u>	<u>259,612</u>	<u>261,863</u>			<u>405,709</u>	<u>1,055,798</u>	<u>5,455,468</u>	<u>14,446,288</u>	<u>2,699,928</u>			<u>24,593,079</u>
Unspent Budget Authority	<u>\$491,587</u>	<u>\$ 45,388</u>	<u>\$ 38,546</u>			<u>\$ 49,115</u>	<u>\$ 425</u>	<u>\$ 133,957</u>	<u>\$ 152,553</u>	<u>\$ 743,991</u>			<u>\$ 1,655,562</u>
INTERNAL SERVICE FUND													
Budgeted					\$21,342,007								\$ 21,342,007
Actual					<u>20,592,586</u>								<u>20,592,586</u>
Unspent Budget Authority					<u>\$ 749,421</u>								<u>\$ 749,421</u>
EXPENDABLE TRUST FUND													
Budgeted		\$ 110,000											\$ 110,000
Actual		<u>73,024</u>											<u>73,024</u>
Unspent Budget Authority		<u>\$ 36,976</u>											<u>\$ 36,976</u>

¹ See note 7 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES & TRANSFERS OUT BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

	Administration	Student Assistance	Eisenhower Mathematics & Sci Ed Act	Community College Assistance	University System Group Insurance	Talent Search	Vo-Tech Appropriation Distribution	Carl D. Perkins Administration	Appropriation Distribution	Guaranteed Student Loan Program	Montana Board of Regents Administration	Board of Regents Bond Payments	Career Information System	Total
PERSONAL SERVICES														
Salaries	\$ 644,686		\$ 13,198		\$ 88,580	\$274,962		\$ 116,181		\$ 854,226				\$ 1,991,833
Other Compensation											\$ 8,250			8,250
Employee Benefits	146,485				22,332	77,139		26,684		244,254				516,894
Total	<u>791,171</u>		<u>13,198</u>		<u>110,912</u>	<u>352,101</u>		<u>142,865</u>		<u>1,098,480</u>	<u>8,250</u>			<u>2,516,977</u>
OPERATING EXPENSES														
Other Services	59,573	\$ 43,000			1,095,261	9,395		6,679		754,923	3,157			1,971,988
Supplies & Materials	(8,241)		575		14,227	25,638		9,081		27,477	778			69,535
Communications	30,724				5,848	14,968		8,439		104,797	979			165,755
Travel	24,975		1,239		8,180	35,009		22,780		39,496	14,806			146,485
Rent	74,307					930		549		130,697				206,483
Utilities	9,214									14,646				23,860
Repair & Maintenance	35,048					153		359		170,451				206,011
Other Expenses	3,314		450		513,897	25,408		2,497		707,992	5,080			1,258,638
Total	<u>228,914</u>	<u>43,000</u>	<u>2,264</u>		<u>1,637,413</u>	<u>111,501</u>		<u>50,384</u>		<u>1,950,479</u>	<u>24,800</u>			<u>4,048,755</u>
EQUIPMENT AND INTANGIBLE ASSETS														
Equipment	4,160				2,675			397		26,642				33,874
Intangible Assets	522					2,126				5,164				7,812
Total	<u>4,682</u>				<u>2,675</u>	<u>2,126</u>		<u>397</u>		<u>31,806</u>				<u>41,686</u>
LOCAL ASSISTANCE														
From State Sources		75,000		\$4,210,862										4,285,862
Total		<u>75,000</u>		<u>4,210,862</u>										<u>4,285,862</u>
GRANTS														
From State Sources		4,998,859												4,998,859
From Federal Sources		255,728	282,802					1,935,729						2,474,259
Total		<u>5,254,587</u>	<u>282,802</u>					<u>1,935,729</u>						<u>7,473,118</u>
BENEFITS & CLAIMS														
To Individuals					2,609									2,609
Insurance Payments					15,104,599									15,104,599
Total					<u>15,107,208</u>									<u>15,107,208</u>
TRANSFERS														
Accounting Entity Transfers	7,878						\$9,328,813	2,988,750 ¹	\$108,204,007				\$146,255	120,675,703
Total	<u>7,878</u>						<u>9,328,813</u>	<u>2,988,750</u>	<u>108,204,007</u>				<u>146,255</u>	<u>120,675,703</u>
DEBT SERVICE														
Leases												\$216,995		216,995
Total												<u>216,995</u>		<u>216,995</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,032,645</u>	<u>\$5,372,587</u>	<u>\$298,264</u>	<u>\$4,210,862</u>	<u>\$16,858,208</u>	<u>\$465,728</u>	<u>\$9,328,813</u>	<u>\$5,118,125</u>	<u>\$108,204,007</u>	<u>\$3,080,765</u>	<u>\$33,050</u>	<u>\$216,995</u>	<u>\$146,255</u>	<u>\$154,366,304</u>
GENERAL FUND														
Budgeted	\$1,006,875	\$5,061,437		\$4,210,862		\$ 87,868	\$8,373,996	\$ 84,256	\$ 90,388,650		\$33,353	\$216,995		\$109,464,292
Actual	1,000,555	5,061,359		4,210,862		87,437	8,373,996	79,291	90,388,650		33,050	216,995		109,452,195
Unspent Budget Authority	<u>\$ 6,320</u>	<u>\$ 78</u>		<u>\$ 0</u>		<u>\$ 431</u>	<u>\$ 0</u>	<u>\$ 4,965</u>	<u>\$ 0</u>		<u>\$ 303</u>	<u>\$ 0</u>		<u>\$ 12,097</u>
SPECIAL REVENUE FUND														
Budgeted	\$ 500,000	\$ 305,000	\$304,246			\$404,139	\$ 954,935	5,356,553	\$ 18,075,887	\$3,335,127				\$ 29,235,887
Actual	32,090	255,728	298,264			378,291	954,817	5,038,834 ¹	17,815,357	3,080,765				\$ 27,854,146
Unspent Budget Authority	<u>\$ 467,910</u>	<u>\$ 49,272</u>	<u>\$ 5,982</u>			<u>\$ 25,848</u>	<u>\$ 118</u>	<u>\$ 317,719</u>	<u>\$ 260,530</u>	<u>\$ 254,362</u>				<u>\$ 1,381,741</u>
ENTERPRISE FUND														
Budgeted	\$ 1,776												\$146,255	\$ 148,031
Actual	0												146,255	146,255
Unspent Budget Authority	<u>\$ 1,776</u>											<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,776</u>
INTERNAL SERVICE FUND														
Budgeted					\$17,973,059									\$ 17,973,059
Actual					16,858,208									16,858,208
Unspent Budget Authority					<u>\$ 1,114,851</u>									<u>\$ 1,114,851</u>
EXPENDABLE TRUST FUND														
Budgeted		\$ 97,000												\$ 97,000
Actual		55,500												55,500
Unspent Budget Authority		<u>\$ 41,500</u>												<u>\$ 41,500</u>

¹ See note 7 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-8.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1995

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Office of the Commissioner of Higher Education (office) uses the modified accrual basis of accounting, as defined by state accounting policy for their Governmental Funds. In applying the modified accrual basis, the agency records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the agency incurs the related liability and it is measurable.

The agency uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the agency records revenues in the accounting period earned, if measurable; and records expenses in the period incurred, if measurable.

Expenditures and expenses may also include entire budgeted service contracts even though the agency received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the agency to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment. Accounts are organized in funds according to state law. The agency uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. The office includes funds appropriated for general operations of the agency and distri-

Notes to the Financial Schedules

bution to the six university units, the five colleges of technology centers, and three community colleges for their general operations.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The majority of this activity includes mill levy distributions to the six university units and five colleges of technology and the activities of the Guaranteed Student Loan Program and other federal programs.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the agency finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Activity relating to the Montana Career Information System is recorded in the Enterprise Fund for fiscal year 1993-94. In fiscal year 1993-94 the office moved accounting activity for the Montana University System's group health insurance plan from the Enterprise Fund to the Internal Service Fund.

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. The Montana University System's group health insurance plan is accounted for in the Internal Service Funds.

Fiduciary Funds

Expendable Trust Fund - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental entities or other funds. Administration of the Rural Physicians Incentive Program is recorded in this fund. The legislature established this program to encourage physicians to locate in rural Montana areas by paying a portion of the physicians' educational debt.

- **2. Annual and Sick Leave**

Employees at the office accumulate both annual and sick leave. The agency pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities related to the Governmental Funds for annual and sick leave are recorded in the Long Term Debt Account Group. In the Proprietary Funds, annual and sick leave are recognized as expenses when the related liability is recorded. The agency absorbs expenditures for termination pay in its annual operational costs. At June 30, 1995 the agency had a compensated leave liability of \$263,347 for its Governmental Funds. The liability recorded in the Proprietary Fund was \$23,774 at June 30, 1995.
- **3. Pension Plan**

Employees are covered by the Montana Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), or Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). The agency's contributions to PERS, TRS, and TIAA-CREF totalled \$126,598 in fiscal year 1993-94 and \$156,307 in fiscal year 1994-95.
- **4. General Fund Balance**

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.
- **5. General Fund Appropriations**

House Bill 2, Laws of 1991, appropriated General Fund moneys to the office for distribution to the six units of the university system, three community colleges and five colleges of technology. The office accounts for this activity in the General Fund as Support from state of Montana, Budgeted Transfers Out to universities and colleges of technology, and Budgeted Local Assistance Expenditures to community colleges.

Notes to the Financial Schedules

6. **Property Taxes**

Section 20-16-202, MCA, levies property tax mills to support, maintain and improve the Montana colleges of technology. The counties collect the tax and remit it to the State Treasurer. The office subsequently distributes these moneys to the five colleges of technology for general operations. The office accounted for this activity in the Special Revenue Fund as Budgeted Taxes Revenue totalling \$1,013,989 and \$974,589 in fiscal years 1994-95 and 1993-94 respectively.

Section 20-25-423, MCA, levies property tax mills to support, maintain and improve the Montana University System. The Department of Revenue collects university millage and records it in the Special Revenue Fund. These collections appear on the financial schedules as Cash Transfers In totalling \$13,685,767 and \$13,372,305 in fiscal years 1993-94 and 1994-95, respectively. Subsequent disbursement is recorded as a Budgeted Transfer Out.

7. **Carl Perkins Federal Funds**

The office recorded expenditures of Carl Perkins Federal Vocational Education Act funds of \$5,001,623 and \$5,225,710 in fiscal years 1993-94 and 1994-95, respectively. The office contracted with the Office of Public Instruction (OPI) to provide management of all Carl Perkins grants to secondary schools. The office transferred \$2,998,750 and \$3,219,996 in fiscal years 1993-94 and 1994-95, respectively, to OPI to fund primary and secondary school vocational education projects. The office recorded funds received from the federal grantor (U.S. Department of Education) as Budgeted Federal Revenues and funds sent to OPI for secondary projects as Budgeted Transfers Out.

8. **Montana University System Group Benefits Plan**

The Montana University System (MUS) Group Benefits plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, as well as their dependents, retirees, and Consolidated Omnibus Budget Reconciliation Act (COBRA) members. Beginning July 1, 1990, the MUS Group Benefits Plan is fully self-insured. United of Omaha was the claims administrator on the plan through June 30, 1995. Under contract with MUS, Managed Care Montana (Blue Cross/Blue Shield of Montana) provides

Notes to the Financial Schedules

utilization management services. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund.

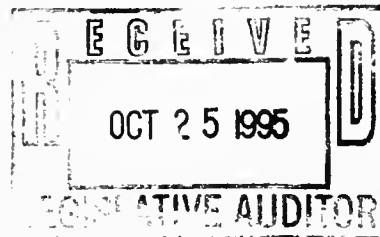
Agency Response



MONTANA UNIVERSITY SYSTEM
OFFICE OF COMMISSIONER OF HIGHER EDUCATION

2500 BROADWAY ♦ PO BOX 203101 ♦ HELENA, MONTANA 59620-3101 ♦ (406)444-6570 ♦ FAX (406)444-1469

October 25, 1995



Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed are the responses to the financial-compliance audit report of the Board of Regents and Commissioner of Higher Education for the two years ended June 30, 1995. We concur with all of the current period recommendations. We hope that the Legislative Audit Committee is willing to help us correct two of our issues of non-compliance with state statutes by sponsoring corrective legislation.

We wish to thank your staff for their suggestions for improving the effectiveness of the Office of the Commissioner of Higher Education and for their courtesy in adjusting to the time constraints of our staff.

Sincerely,

A handwritten signature in cursive script that reads "Laurie O. Neils".

Laurie O. Neils
Director of Budget and Accounting

enclosures

RECOMMENDATION #1

We recommend the office develop an investment strategy with the Board of Investments to increase investment earnings in the MUS insurance and GSL program accounts.

AGENCY RESPONSE:

Concur. The potential exists for major changes in the cash flows of both the Insurance and GSL program accounts during Fiscal Year 1996. However, the Office of the Commissioner is committed to maximizing our interest earnings and particularly interested in the possibility of a bond pool or other investment pool in which we do not have to commit funds for a year or longer.

RECOMMENDATION #2

We recommend the office comply with federal regulations concerning the level of state vocational education expenditures for the Carl Perkins program.

AGENCY RESPONSE:

We will continue to try to get a definitive answer from the Department of Education concerning the reporting of peak year's efforts. The response to that question is necessary before we know whether we need to pursue options for remaining in compliance with federal regulations concerning maintenance of effort.

RECOMMENDATION #3

We recommend the office recover indirect costs from the Talent Search grant at 8% of direct costs as allowed by the U.S. Department of Education.

AGENCY RESPONSE:

Concur. The office did recover the full 8%, but then allowed the grant to offset the indirects with their copying charges. This was based on historical practice. Beginning with Fiscal Year 1996, the copying charges will no longer offset the indirect cost recovery.

RECOMMENDATION #4

We recommend the office set fees within statutory limits or seek legislation to eliminate statutory fee limits.

AGENCY RESPONSE:

Concur. The office requests the assistance of the Legislative Audit Committee in sponsoring legislation to remove the restrictive statutory language.

RECOMMENDATION #5

We recommend the office:

- A. Develop a METNET budget on a timely basis to facilitate assessment and collection of METNET fees by July 1, in accordance with state law; or
- B. Seek legislation to change the METNET assessment date to coincide with approval of the university system operating budgets.

AGENCY RESPONSE:

Concur. We had intended to try to change the July 1 date in statute, but since there was no other legislation dealing with METNET, we did not have a bill drafted to change the date. In our response two years ago we stated that we did not perceive that legislative intent for METNET focused on the July 1 date, but rather the collection of the fee within the fiscal year, since the timing of the collection has no material effect on the State or the program. Since the University System budgets are required by statute to be approved by October 1 of each year, the office would support a change in the date to October 1. The office requests the assistance of the Legislative Audit Committee in submitting legislation to change the July 1 date in the statutes related to METNET.

